

International Symposium

Enhancing

Life Insurance Regulatory Regimes in ASIA

Emerging Life Insurance Product Changes and Pension System
Developments and Impact on Regulations

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Product Changes +
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Occupational Retirement Schemes System

- ◆ **Population : 6.5 million**
- ◆ **Workforce : about 3.5 million**
- ◆ **Voluntary System**
- ◆ **Why Regulate?**
 - ➔ Civil servants and teachers covered pensions or provident fund schemes (about 10% of workforce)
 - ➔ Growing number of retirement schemes established
 - ➔ Covered about 20% of workforce
 - ➔ Certain cases of mis-management of schemes (e.g. inadequate funding)

Occupational Retirement Schemes System - con't

- ◆ **Occupational Retirement Schemes Ordinance (“ORSO”)**
 - ➔ Commenced operation in October 1993
 - ➔ Ensure all voluntary schemes properly registered, administered and funded
 - ➔ Certainty that benefits promised will be paid when fall due

Occupational Retirement Schemes System - con't

- ◆ Registrar of Occupational Retirement Schemes
- ◆ Schemes can be Defined Benefit or Defined Contribution
- ◆ Trust and Insurance Arrangements Allowed
- ◆ Some Trust Arrangements have Investments in Insurance Policies

**ORSO Registered
Scheme Arrangement
(by No. of Schemes)
ORSO Registered
Schemes Arrangement
(by amount of scheme assets)**

Inadequacy of ORSO System

- + Hong Kong Facing an Aging Problem**
- + Only 1/3 of Workforce Covered by Government or ORSO Schemes**
- + Result**
 - ✦ Need for a community-wide retirement protection system
 - ✦ Mandatory Provident Fund (“MPF”) System to be implemented in year 2000

Main Characteristics of MPF

- ◆ Privately-managed
- ◆ Regulated by a Public Body - Mandatory Provident Fund Schemes Authority (MPFA)
- ◆ Trust Arrangement - Trustees Must be Approved by MPFA
- ◆ Employer-based System

Main Characteristics of MPF - CON'T

- ◆ Defined Contribution System
- ◆ Mandatory Contributions + Voluntary Contributions
- ◆ Accrued Benefits Fully Vested in Scheme Members and Portable between Schemes
- ◆ Benefits Preserved until Retirement or Prescribed Circumstances
- ◆ Payment in Lump Sum

Types of MPF Schemes

Employer Sponsored Scheme

Insurer's Involvement in MPF

Insurer's Involvement in MPF - CON'T

- **Establishment of Associated Trust Companies for MPF Schemes**
 - Provide staff, expertise and resources to trust companies
 - Provide financial support to trust companies
- **Sponsor of MPF Schemes**

Insurer's Involvement in MPF - CON'T

- ❖ **Intermediaries (as at Sept 1999)**
 - ⇒ 37,331 individual insurance agents
 - ⇒ 547 corporate insurance agents
 - ⇒ 350 insurance brokers
- ❖ **Scheme Administration**
 - ⇒ ORSO schemes under trust arrangement
 - ⇒ Deposit administration contracts (non-investment linked retirement scheme management contracts)
- ❖ **Design and Launch Pooled Investment Funds for MPF - Insurance Policies**

Pooled Investment Funds (PIFs)

- Must be Approved by MPFA APIFs
- Permissible Investment Vehicles for MPF Schemes
- Unit Trusts or Insurance Policies

Approved Pooled Investment Fund (APIF) - Insurance Policies

- Investment Vehicle Issued by Authorized Insurer
- Reserving for Guaranteed Fund in accordance with Insurance Companies Ordinance
- Trust-based Philosophy
- Separation of Assets for Each Series of Insurance Policies
 - Assets placed in separate statutory funds
 - Ring-fencing against liabilities of other policies

Approved Pooled Investment Fund (APIF) - Insurance Policies - CON'T

- ❑ Segregation of Duties
 - Assets kept by custodian
 - Appointment of qualified investment manager
 - Insurer can assume investment management function only if licensed by Securities & Futures Commission
- ❑ Unitization (Investment Earnings Flow through to Policy Holders) Except for Guaranteed Policies
- ❑ Close to Unit Trust Enhance Transparency

Marketing Intermediaries

- Intermediaries Under the Insurance Regime
 - Life Insurance Agents
 - Insurance Brokers
 - Staff of Life Insurance Companies
- MPF-specific Examination
- Registration with MPFA
- Scheme Trustee and Promotor Responsible for Supervision of Intermediaries

Disclosure of Information on MPF Schemes

- Ensure Prospective Employers and Scheme Members are Well Informed of Scheme Features
- Standards Comparable to those of Unit Trusts

Disclosure of Information on MPF Schemes - CON'T

- **Statement of Investment Policy for each Investment Option of an MPF Scheme**
 - Investment objectives and policy
 - Balance between different securities and assets
 - Geographical distribution
 - Derivative and security lending activities
 - Risks involved and expected return

Disclosure of Information on MPF Schemes - CON'T

- Disclosure of Fees and Charges
- Scheme Contact Person
- Annual Benefit Statements

Product Evolvement

- ✦ Choice of Investment Options by Scheme Members
- ✦ Transparency of Products (e.g. Unitization Requirement, Proper Disclosure of Information)

Product Evolvement - CON'T

- ✦ Splitting of Risk Element and Savings Element of Insurance Products
- ✦ Movement to Unit-linked Products
- ✦ Outsourcing - Administration, Custodian, Investment Management Functions

Implications on the Local Financial Services Industry

- ◆ Estimated Annual Contributions
 - HK\$10 billion in first year
 - HK\$60 billion in 30 years
- ◆ Estimated Total Scheme Assets
 - HK\$400 billion in 15 years
 - HK\$960 billion in 30 years